

**Review of the Termination and Suspension of Benefits Paid
Under the Railroad Retirement Act, Report No. 06-06, May 24, 2006**

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) review of the Railroad Retirement Board's (RRB) actions to suspend and terminate benefits initially awarded under the Railroad Retirement Act (RRA).

Background

The RRB administers the retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the RRA and the Railroad Unemployment Insurance Act (RUIA). These programs provide income protection during old age and in the event of disability, death, temporary unemployment or sickness. During fiscal year (FY) 2005, the RRB paid approximately \$9.2 billion in RRA benefit payments to 634,000 retirement and survivor beneficiaries.

The RRA provides for the payment of monthly annuities to retired railroad workers, their spouses and survivors. The agency pays annuities on the basis of years of service and age or disability.

The Office of Programs is responsible for the adjudication of benefits including decisions on entitlement and computation of payment amounts. Benefit payment operations are supported by both mainframe and local area network based computer operations from the time of application through payment including the maintenance of comprehensive historical records.

Under the RRA, benefits can only be paid to entitled individuals. Entitlement to an annuity can end for a variety of reasons: death, return to work, recovery from disability, divorce and remarriage.¹ When the loss of entitlement is expected to be permanent, the agency terminates the benefit; for example, when a beneficiary has died. If the loss of entitlement is expected to be temporary, as in the case of a beneficiary who returns to work, the agency suspends the benefit payment. The RRB may also suspend benefits to recover overpayments.

This review was undertaken to support the OIG's annual audit of the RRB's financial statements, which is required by the Accountability of Tax Dollars Act of 2002. In compliance with the Office of Management and Budget's Bulletin 01-02, Audit Requirements for Federal Financial Statements, the OIG assesses compliance with selected provisions of the RRA as part of its annual audit of the RRB's financial statements.

¹ 45 USC § 231a(e)(3), 45 USC § 231d(c).

Objective, Scope, and Methodology

The objective of this audit was to determine whether suspensions and terminations of benefits initially awarded under the RRA were executed in compliance with applicable provisions of that law and related agency procedure. To accomplish our objective, we:

- interviewed responsible management and staff;
- identified the provisions of the RRA applicable to the termination and suspension of benefit payments;
- assessed the agency's overall compliance with applicable law and agency procedure during the first quarter of FY 2005 using statistical acceptance sampling; and
- evaluated compliance with applicable agency procedures for suspensions and terminations processed between November 2003 and April 2005 (18 months) using random, non-statistical sampling.

The details of our sampling methodology and results are presented in Appendices I through IV to this report. Our tests of internal control were limited to an assessment of the evidence presented by the results of our sampling tests.

Our work was performed in accordance with generally accepted government auditing standards as applicable to the objective. We performed audit fieldwork at RRB headquarters in Chicago, Illinois from December 2004 through July 2005 and January through March 2006.

RESULTS OF REVIEW

The RRB generally processed suspensions and terminations of benefits initially awarded under the RRA in compliance with applicable provisions of that law and related agency procedure during the first half of FY 2005. However, we identified some exceptions that indicate controls may not be adequate to ensure the quality of agency processing for the minority of cases that require manual handling.

Additional Controls May Be Needed for Cases Requiring Manual Handling

The Office of Programs may need to strengthen controls to ensure complete processing of suspensions and terminations in certain cases for which processing has not been fully automated.

We evaluated a sample of 45 cases that had been either suspended or terminated during the first quarter of FY 2005. We identified one case that had not been fully processed in compliance with established agency procedures, thus exceeding the sample acceptance threshold. Our sampling methodology and results are detailed in Appendix I to this report.

In order to qualify for retirement benefits under the RRA, a railroad worker must leave his/her job in the railroad industry and formally relinquish the right to future work in that industry. If a railroad retirement beneficiary returns to railroad service, they lose their entitlement to benefits.² In these circumstances, agency procedure requires that a notice be sent immediately to notify the annuitant of the suspension, even if the annuitant has informed the RRB of his/her return to railroad service.³

Existing controls over correspondence received from field service offices were not adequate to ensure proper handling in this case. The field service office received notification from the beneficiary that he had returned to work, suspended the annuities of both the employee and his spouse, and forwarded the notice to RRB headquarters for further administrative action. The notice from the field office was received at headquarters but no further action was taken to send the required notice of suspension to the annuitants or to collect the related overpayment until it was identified during the OIG's audit, approximately nine months later.

As a result, the annuitants did not receive timely notification of the suspension of their benefits as required by established procedure, and the RRB did not take timely action to recover the related overpayment of \$1,626. In this case, the annuitant did not notify the agency that he had returned to work in time to prevent the issuance of benefit payments after loss of entitlement had occurred.

The majority of suspensions and terminations, including the release of standard notices and overpayment calculation and recognition, are processed automatically. Cases that require manual handling represent a relatively small minority of cases. For example, only 24 of the 10,739 cases in the universe from which we sampled had been suspended because the annuitant had returned to work.

Recommendation

The Office of Programs should review the circumstances of this case and its procedures for handling correspondence from field service offices to determine whether the controls over these types of cases can be improved. (Recommendation #1)

Management's Response

Management has agreed to review the cases and determine if any additional actions are warranted.

The full text of management's response is included in Appendix V to this report.

² If a railroad retirement beneficiary returns to work in another industry, they do not lose their entitlement but the amount of their annuity may be reduced based on their earnings.

³ Ordinarily, a 30-day due process notice is provided prior to suspension; however, due-process rights are not applicable when the employee reports his/her own return to railroad service.

Additional Controls Are Needed for Cases with Assumed Effective Dates

The Office of Programs does not always properly complete the suspension and termination process when further review is required to determine the correct effective date.

In some cases, the RRB receives information that an annuitant's entitlement to benefits has ended but does not receive enough information to determine the date from which payments should have been stopped. In these cases, agency procedure requires that future benefit payments be suspended or terminated using an "assumed effective date", and that action be taken to determine the actual date of the terminating event, recover any overpayments, pay benefits due but unpaid, and change the beneficiary's payment status, if necessary.

We evaluated a sample of 100 cases that had been either suspended or terminated using an assumed effective date, and identified 21 (21%) for which all required agency actions had not been completed, including \$39,538 in unidentified overpayments and underpayments.⁴ Our sampling methodology and results are detailed in Appendices III and IV to this report.

The 21 exceptions identified by the audit included 17 termination cases for which the automated workload management system was ineffective in ensuring that all required adjudicative action was taken. In these cases, the referral was erroneously closed by Office of Programs staff without completing the necessary action. We also identified four suspension cases, not controlled through the automated workload management system, for which all adjudicative action was not completed due to a lack of procedures and controls.

We found that some of the referrals were closed without being processed or they were processed initially without the necessary follow-up action to ensure the receipt of the required information. The agency does not have a control process to ensure that processing is properly completed for these cases.

When the agency does not complete all required action with respect to suspensions and terminations, overpayments may not be collected and benefits may be underpaid. Based on the results of this sample, we estimate that, if all 758 cases in the universe were reviewed, approximately 159 cases would be found to require further development. We estimate the monetary impact of unidentified overpayments and underpayments to be approximately \$200,000.

⁴ The sample was drawn from the universe of 758 cases that were suspended or terminated with an assumed effective date between November 2003 and April 2005 (18 months) as identified on the Payment Rate and Entitlement History (PREH) system with a "Y" indicator in the ASSUM-TERM-EFF-DT-FLAG field.

Recommendation

We recommend that the Office of Programs:

- review the exceptions identified by this audit and determine what cost-effective controls and procedures can be developed to ensure full adjudication of the suspension cases when further review is required to determine the correct effective date (Recommendation #2); and
- review the exceptions identified by this audit and determine what action can be taken to reduce or eliminate erroneous closure of cases terminated with an assumed effective date on automated workload management system. (Recommendation #3)

Management's Response

Management has agreed to analyze the exceptions and develop proposed actions.

The full text of management's response is included in Appendix V to this report.

SAMPLING METHODOLOGY AND RESULTS

Acceptance Sampling for Overall Compliance

We used statistical sampling to determine whether suspensions and terminations of benefits initially awarded under the RRA were executed in compliance with applicable provisions of that law and related agency procedure.

Objective and Scope

The sampling objective was to determine whether the RRB's actions to suspend or terminate benefit payments had been executed in accordance with applicable provisions of the Railroad Retirement Act (RRA). The sample was drawn from the universe of 10,739 cases that were suspended or terminated during the first quarter of FY 2005.

Review Methodology

Our case review methodology linked RRA provisions governing the termination or suspension of benefit payments to the specific information, determinations and documentation required to support the termination or suspension of benefits. For each case in the sample, we reviewed information retained in support of the agency's action to suspend or terminate benefits and determined whether:

- the event that caused the entitlement to benefits to end ("the terminating event") had a basis in the RRA;
- the agency had determined the date of the terminating event;
- the effective date of the termination or suspension action was established in accordance with the law; and
- a notice of termination or suspension was issued when required by the law.

We also assessed compliance with related agency procedures, specifically whether:

- any overpayment of benefits had occurred as a result of the event cited, and if so, had it been assessed and recorded in the agency's accounts receivable system;
- any amounts were due but unpaid at the death of an annuitant, and if so, was appropriate action taken to develop an application for payment; and
- notices to the annuitant, other than those required by law, were issued.

SAMPLING METHODOLOGY AND RESULTS

Acceptance Sampling for Overall Compliance

Sampling Methodology

We used statistical acceptance sampling using a 90% confidence level and a 5% tolerable error which directed a 45 case sample drawn at random from the universe.

The threshold for sample acceptance was zero errors. Zero errors would permit the auditors to infer with 90% confidence that the RRB had a reasonable basis for its decision in at least 95% of the universe of all termination and suspension actions. We applied the same sample acceptance threshold in our evaluation of control effectiveness when other types of processing errors were identified.

Results of Sample Review

Our review of 45 cases did not identify any cases of non-compliance with the termination or suspension provisions of the RRA or related requirements for the collection of overpayments and payment of benefits.

Other Exceptions

We identified one case which had not been properly processed in compliance with established procedure. The annuitants did not receive timely notification of the suspension of their benefits, and the RRB did not take timely action to recover the related overpayment of \$1,626.

Audit Conclusion

We conclude, with 90% confidence, that the RRB suspended/terminated benefits in compliance with the law in at least 95% of cases. Internal control over suspensions and termination actions that require manual handling may require improvement.

SAMPLING METHODOLOGY AND RESULTS
Random Sampling for Compliance with Procedures
Effective Date of the Suspension/Termination Was Not Assumed

We used random, non-statistical sampling to assess compliance with established agency procedure for cases suspended or terminated without an assumed effective date.

Objective and Scope

The sampling objective was to determine whether the RRB's actions to suspend or terminate benefit payments had been executed in accordance with applicable agency procedures. The sample was drawn from the universe of 70,727 cases that were suspended or terminated between November 2003 and April 2005 (18 months). This universe excludes cases that had been identified by the agency as processed with an "Assumed Effective Date."

Review Methodology

Our case review methodology used agency procedures applicable to the termination and suspension of benefits as criteria for our assessment. For each case in the sample, we assessed whether:

- the agency had determined the date of the event cited as cause for the termination or suspension of benefits;
- any overpayment of benefits had occurred as a result of the event cited, and if so, had it been assessed and recorded in the agency's accounts receivable system; and
- any amounts were due but unpaid at the death of an annuitant, and if so, was appropriate action taken to develop an application for payment.

Sampling Methodology

We selected 100 cases at random from the universe.

Results of Sample Review

Our assessment did not identify any exceptions.

Audit Conclusion

Based on our tests of transactions, we conclude the RRB generally complies with established agency procedure for suspension and termination of benefits. The results are consistent with our findings concerning overall compliance (see Appendix I).

SAMPLING METHODOLOGY AND RESULTS
Random Sampling for Compliance with Procedures
Effective Date of the Suspension/Termination Assumed

We used random, non-statistical sampling to assess compliance with established agency procedure for cases suspended or terminated with an assumed effective date.

Objective and Scope

The sampling objective was to determine whether the RRB's actions to suspend or terminate benefit payments had been executed in accordance with applicable agency procedures. The sample was drawn from the universe of 758 cases that were suspended or terminated with an assumed effective date between November 2003 and April 2005 (18 months) as identified on the Payment Rate and Entitlement History (PREH) system. On the PREH system, such cases carry a "Y" indicator in the ASSUM-TERM-EFF-DT-FLAG field shown on the RHRRID (3200) screen.

Review Methodology

Our case review methodology used agency procedures applicable to the termination and suspension of benefits as criteria for our assessment. For each case in the sample, we assessed whether:

- the agency had determined the date of the event cited as cause for the termination or suspension of benefits;
- an overpayment of benefits had occurred as a result of the event cited, and if so, had it been assessed and recorded in the agency's accounts receivable system, and
- any amounts were due but unpaid at the death of an annuitant, and if so, was appropriate action taken to develop an application for payment.

Sampling Methodology

We selected 100 cases at random from the universe.

Results of Sample Review

Our assessment identified 21 instances of incomplete adjudication after termination or suspension. The date of the event cited as the reason for suspension or termination had not been obtained in all cases; as a result, some overpayments were not identified for collection; and some accrued annuities remained unpaid.

The details of terminations and suspensions cited as audit exceptions are presented in Appendix IV to this report.

SAMPLING METHODOLOGY AND RESULTS
Random Sampling for Compliance with Procedures
Effective Date of the Suspension/Termination Assumed

Audit Conclusion

The RRB needs to improve its handling of suspensions and terminations initially processed with an assumed effective date to ensure that the adjudicative process is completed. Based on the results of this sample, we estimate that, if all 758 cases in the universe were reviewed, approximately 159 cases would be found to require further development. We estimate the monetary impact of unidentified overpayments and underpayments to be approximately \$200,000.

DETAILS OF AUDIT EXCEPTIONS
Assumed Effective Date
Terminations and Suspensions

TERMINATIONS

The 21 exceptions identified by the audit included 17 termination cases for which the automated workload management system was ineffective in ensuring that all required adjudicative action was taken. In these cases, the date of death was not obtained because the referral to the automated workload management system was erroneously closed by Office of Programs staff without completing the necessary action. The closure of the system referral ends the agency's tracking mechanism for these cases and the need for further adjudicative action may go unnoticed indefinitely.

Erroneously Closed Termination Cases - No Action Taken

The following 13 termination cases were closed without any action being taken to secure the annuitant's date of death (termination effective date).

<u>Case #</u>	<u>Type of Exception</u>	<u>Monetary impact</u>	
43	Date of Death Not Obtained	\$ 401.34	Overpayment
36	Date of Death Not Obtained	\$ 821.56	Underpayment
40	Date of Death Not Obtained	\$ 32,872.06	Underpayment
72	Date of Death Not Obtained	\$ 656.48	Underpayment
96	Date of Death Not Obtained	\$ 2,526.57	Underpayment
4	Date of Death Not Obtained	-	No Monetary Impact
7	Date of Death Not Obtained	-	No Monetary Impact
17	Date of Death Not Obtained	-	No Monetary Impact
28	Date of Death Not Obtained	-	No Monetary Impact
48	Date of Death Not Obtained	-	No Monetary Impact
60	Date of Death Not Obtained	-	No Monetary Impact
64	Date of Death Not Obtained	-	No Monetary Impact
82	Date of Death Not Obtained	-	No Monetary Impact
		\$37,278.01	

DETAILS OF AUDIT EXCEPTIONS
Assumed Effective Date
Terminations and Suspensions

Erroneously Closed Termination Cases - Partial Action Taken

In the following four termination cases, the Office of Programs began the adjudicative process but the system referrals were closed prior to completion of all necessary action.

<u>Case #</u>	<u>Type of Exception</u>	<u>Monetary impact</u>	
26	No development for payment of outstanding accrued annuity.	\$ 1,296.14	Underpayment
34	Date of Death Not Obtained	-	No Monetary Impact
39	Date of Death Not Obtained	-	Unknown
45	Date of Death Not Obtained	\$ 703.66	Overpayment
		\$1,999.80	

SUSPENSIONS

The 21 exceptions identified by the audit included four cases that were suspended when payments were returned to the agency. The Office of Programs did not complete action to determine why payments were returned and whether the payments should be reinstated or terminated.

<u>Case #</u>	<u>Type of Exception</u>	<u>Monetary impact</u>	
32	Appropriate Action Not Taken	-	Unknown
44	Appropriate Action Not Taken	-	Unknown
46	Appropriate Action Not Taken	\$259.80	Underpayment
70	Appropriate Action Not Taken	-	Unknown

Monetary impact is unknown in three of the cases because agency information is insufficient to determine whether an overpayment or underpayment may exist. Since its identification during the audit, the annuitant in case #46 was re-instated by the Office of Programs and determined to have been underpaid as a result of the suspension.



UNITED STATES GOVERNMENT

MEMORANDUM

MAY 22 2006

TO: Henrietta Shaw
Assistant Inspector General, Audit

FROM: Catherine A. Leyser *Catherine A. Leyser*
Director of Assessment and Training

THROUGH: Dorothy Isherwood *D. Isherwood*
Director of Programs

SUBJECT: **Draft Report – Review of the Termination and Suspension of Benefits Paid Under the Railroad Retirement Act**

Recommendation 1 The Office of Programs should review the circumstances of this case and its procedure for handling correspondence from field service offices to determine whether the controls over these types of cases can be improved.

OP Response We agree. We will complete our review and determine what actions, if any, are warranted by July 31, 2006.

Recommendation 2 We recommend that the Office of Programs review the exceptions identified by this audit and determine what cost-effective controls and procedures can be developed to ensure full adjudication of the suspension cases when further review is required to determine the correct effective date.

OP Response We agree. We will complete our analysis and develop our proposed actions by September 1, 2006.

Recommendation
3 We recommend that the Office of Programs review the exceptions identified by the audit and determine what action can be taken to reduce or eliminate erroneous closure of cases terminated with an assumed effective date on automated workload management system.

OP Response We agree. We will complete our analysis and develop our proposed actions by December 1, 2006.

Attachment

cc: Director of Policy and Systems
Director of Operations
Director of Retirement Benefits/ Acting Director of Survivor Benefits
Director of Field Service
Chief of Program Evaluation (Ret/Surv/Medicare/Tax)